SUMMARY

1. Since its previous Trade Policy Review in 2009, Japan has refrained from introducing new trade barriers, notwithstanding the onset of the global financial crisis; on the other hand, it has introduced few measures aimed at further liberalizing its trade and trade-related regime.

2. Mainly as a result of the crisis, the Japanese economy contracted during the period under review owing to the sharp fall (by 25% in 2009) in exports, which have traditionally been the main engine of Japan's economic growth. Against this background, Japan's current account surplus narrowed to 3.3% of GDP in 2009 (from 4.8% in 2007). However, a subsequent rebound in exports has boosted growth, with real GDP projected to grow by 2.8% in 2010.

3. To mitigate the adverse impact of the initial drop in exports on growth, the Government has instituted a series of stimulus packages (totalling 4.7% of GDP) since August 2008 in order to stimulate domestic demand. The stimulus packages have focused largely on increased spending. Consequently, the fiscal deficit rose to 10% of GDP in 2009 and public debt reached roughly 220% of GDP. The fiscal stimulus packages were complemented by accommodative monetary policy, with near-zero interest rates, adopted under the persistent deflationary environment in Japan. In addition, however, the yen appreciated against all major currencies. If sustained, this would tend to reduce the international competitiveness of Japan's exporters, thus jeopardizing export-led growth, unless their productivity can be substantially improved.

4. While looser macroeconomic policies have helped Japan's economy to recover from the global financial crisis, they do not address its long-standing structural problems (including the rapid aging of its population) that are reflected in sluggish growth during the past decade or so in both real GDP and total factor productivity (TFP), a key determinant of Japanese firms' international competitiveness. These problems can be addressed more effectively by far-reaching structural reforms, of which trade liberalization (and the resulting stimulus to competition) is an integral part. However, structural reforms have, if anything, slowed since 2009.

5. The authorities do recognize the need for structural reform, particularly to improve productivity in the services sector (which is much lower than in manufacturing). In June 2010, it introduced a New Growth Strategy, focusing on seven priority areas (i.e. environment and energy, medical and health care, economic integration with other Asian countries, tourism and revitalization of regional economies, science and technology, human resources, and financial services). In addition, as regards tax reform, considering Japan's relatively low share of taxes in GDP, the authorities recognize the need to render the income tax system more neutral with respect to investment and other economic decisions by broadening the tax base and cutting relatively high corporate tax rates. Hence, the Government plans to reduce tax incentives and cut the statutory corporate tax rate from 40% to 35% from the next fiscal year. To the extent that the present high corporate tax rate discourages inward foreign direct investment (FDI), the lower rate could also stimulate such FDI, which is a much smaller percentage of GDP than in other large OECD economies. Since its previous Review, Japan has adopted measures to facilitate the approval of FDI.

6. While administrative organs are required to conduct ex-ante evaluation of regulations, and a procedure for ex-ante regulatory impact analysis has been introduced, cost-benefit analysis is not frequently used when formulating, revising, or abolishing policies and measures; such analysis is rarely used to evaluate existing measures, such tariff and non-tariff protection of agriculture, or to evaluate the economic effects of preferential trade agreements (PTAs). The recent publication of quantitative analysis regarding the possible economic effects of Japan's participating in the Trans Pacific Partnership initiative is one of the few notable exceptions. Publication of such quantitative analysis by the Government can help it adopt trade and related policies and measures that are more cost-effective.

7. In the period under review, Japan has been a party to four disputes, one as a respondent and three as a complainant.

8. During the period under review, two bilateral trade agreements, or Economic Partnership Agreements (EPAs), entered into force (with Switzerland and with Viet Nam); several others are being negotiated. Japan considers that its regional and bilateral trade agreements complement the multilateral system, while it acknowledges that the level of complication increases as entry into force of such agreements

progresses. The PTAs that Japan has adopted also involve, *inter alia*, trade facilitation, investment, movement of natural persons and competition policy. However, the agreements with countries that are significant exporters of agricultural products tend to exclude many of these products. They also exclude certain industrial goods, such as leather products and footwear, which the authorities consider to be highly sensitive. These products are also largely excluded from the Generalized System of Preference (GSP) scheme, under which Japan grants preferential treatment to products from certain developing and least developed countries.

9. The tariff continues to be Japan's main border instrument. In fiscal year (FY) 2010, the simple average applied MFN tariff rate was 5.8%, down from 6.1% in FY2008, reflecting a decrease in the average *ad valorem* equivalents (AVEs) of non-*ad valorem* duties. Non-*ad valorem* duties, which account for 6.6% of Japan's tariff lines, tend to involve high AVEs, and are an important feature of Japan's tariff, particularly for agricultural products. Whereas the simple average tariff rate under the GSP is 4.6% (down from 4.9% in FY2008), that for LDCs is 0.5% (the same as in FY2008). Japan's simple average tariff rates under bilateral PTAs range from 2.9% to 3.4%.

10. Japan's non-tariff border measures include some import prohibitions and quantitative import restrictions (for example, import quotas on some fish). State trading involves leaf tobacco, opium, rice, wheat and barley, and milk products.

11. Japan makes little use of contingency measures. It has continued to apply two anti-dumping measures during the review period, but eliminated one countervailing measure; it has not imposed any safeguard measures since 2001.

12. Japan maintains certain export controls on national security and public safety grounds and to preserve natural resources in accordance with international agreements (such as CITES). Export finance, insurance, and guarantees are available. Duty drawback schemes are available on selected inputs for certain manufacturing, but they do not necessarily refund 100% of duties paid. The Government has recently begun promoting agricultural exports, mainly by providing information to consumers overseas.

13. About 46% of Japanese Industrial Standards (JIS) were aligned to international standards in 2009 (unchanged since 2008). Although Japan maintains that its SPS measures are based on scientific assessment of risks, it has apparently not conducted cost-benefit analysis in this connection.

14. Various laws on intellectual property rights (IPRs) have been amended since Japan's previous Review with a view to, *inter alia*, strengthening the role of Customs in enforcement and expanding the scope of application of criminal penalties for infringement of trade secrets. Japan remains an active participant in multinational and regional discussions on agreements to promote international harmonization of regimes protecting IPRs.

15. The authorities intend to continue to strengthen competition policy. In this regard, the Anti-monopoly Act was amended in June 2009 to, *inter alia*, introduce a surcharge (fine) in respect of practices involving exclusionary types of private monopolization, and a 50% increase in the surcharge on businesses that have played a leading role in cartels and bid-rigging.

16. With regard to agriculture, whose labour productivity remains much lower than in the rest of the economy, the Government has continued to move away from price support toward income support. However the sector continues to receive substantial government support, which involves, *inter alia*, a relatively higher average applied MFN tariff rate compared with other sectors, tariff quotas, income support, and, in some sub-sectors, production controls.

17. Manufacturing, whose labour productivity is higher than in the rest of the economy, remains open and subject to competition. However, it would appear that during the period under review, government support to the sector increased through the Enterprise Turnaround Initiative Corporation (ETIC).

18. Certain services continue to be subject to, *inter alia*, licensing and restrictions on foreign investment; as in many other sectors, they are also faced with the generally high cost of doing business in Japan, which has been considered as one of the main deterrents to inward FDI in services and thus competition in the services sector. Furthermore, it appears that trade-related reforms initiated in the services sector have slowed, with the notable exception of liberalization of air traffic through the pursuit of "open sky" agreements,

which has increased competition in the sector. At the same time, however, partially as a result of intensified competition, the Government authorised the rescue of Japan Air Lines by the ETIC and the Development Bank of Japan. The privatization of Japan Post, a reform that was regarded as a "landmark" when it was initiated in 2007, has been under review since 2009 with a view, *inter alia*, to maintaining the postal network. Despite some volatility in domestic capital markets affected by the global financial crisis, Japanese banks emerged, by and large, relatively unscathed. Nonetheless, the Government put in place a number of measures for both banks and securities firms to mitigate the impact of the crisis.